

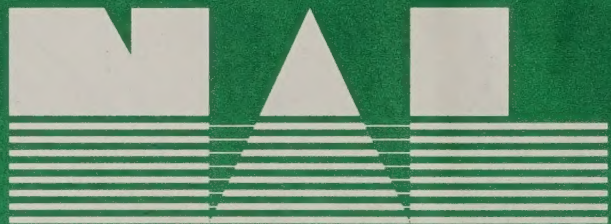
## **Historic, Archive Document**

Do not assume content reflects current scientific knowledge, policies, or practices.



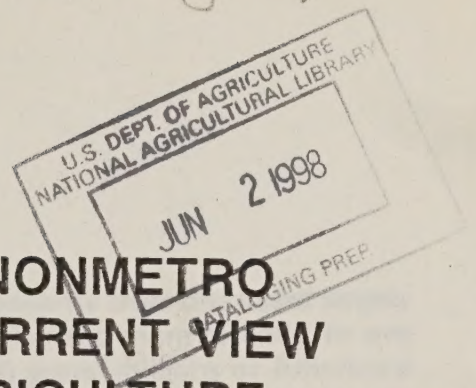
Reserve  
aHD1773  
.A5H56  
1986

**United States  
Department of  
Agriculture**



**National Agricultural Library**

*Rural Regions of US*



# AN OVERVIEW OF THE SOUTHERN NONMETRO ECONOMY: AN HISTORICAL AND CURRENT VIEW WITH EMPHASIS ON SOUTHERN AGRICULTURE

FRED HINES AND MINDY F. PETRULIS

## INTRODUCTION

The last 150 years have seen the U.S. economy transformed from one which was highly rural and farm-dependent to a modern, highly industrialized, service-based economy. Much of this transformation has taken place during the last 50 years. U.S. farm numbers reached their peak of nearly 7 million in the mid 1930's, three times the current number. But, as the number of farms has declined, millions of rural people have been transformed into urban dwellers dependent on jobs in nonfarm factories and service-producing industries. This industrial transformation has been accompanied by large interstate and interregional migrations of people with many traditionally agricultural states and regions losing farm-reared people to the more industrialized areas of the country.

Much of the early interregional migration took place from the rural, farm-based South to the rapidly-growing, industrializing Northeast and Midwest. During the late 1960's and 1970's, with the South's farm population greatly reduced and industry finding southern locations attractive, the South-to-North migration stream reversed. But, the economic environment of the 1980's has again surfaced questions about the permanence of economic growth and development in the South, particularly in the nonmetro areas. While southern metro areas have performed well, many nonmetro areas of the South, dependent on manufacturing and/or mining for their economic base, are now highly stressed (with unemployment rates much above the national average) by the ongoing adjustments in world energy prices and the intense international competition in the production of manufactured goods. And, southern farmers have not escaped the consequences of the current U.S. farm financial problems.

The purpose of this paper is to (a) review the role of agriculture in the transformation of the U.S. and the southern economy since World War II, (b) provide an overview of the current structure of the nonmetro economy of the South, pointing up problems in the basic sectors of agriculture, mining and manufacturing, and (c) provide some insights into how well the southern farm sector is adjusting, relative to farm factors in other regions, to current financial problems in U.S. agriculture.

U.S. DEPT. OF AGRICULTURE  
JUN 5 1938

UNITED STATES GOVERNMENT

THE UNITED STATES GOVERNMENT  
DEPARTMENT OF AGRICULTURE  
BUREAU OF PLANT INDUSTRY  
WASHINGTON, D. C.

## HISTORICAL PERSPECTIVE

### The Nation

Economic history records the transformation of the nation's economy from one based largely on agriculture to one which relied more and more on manufacturing and more recently to one more oriented toward service-producing industries. For over 200 years, millions of Americans born to farm families or families in small farm-based communities have left their birthplace to find employment in urban industrial centers. The first official U.S. Census of 1790 found that 95 percent of the American population lived in rural areas. By 1980, only about one-fourth of the population lived in rural areas and the majority of these 59 million people followed economic pursuits outside agriculture. In fact, less than a tenth of the rural population lived on farms and these 5.6 million farm residents represented only 2.5 percent of the American population.

American agriculture has played a pivotal role in the nation's economic development. Technological developments in farming have made farmers more productive and also more dependent on purchased inputs and processing and marketing services from the nonfarm economy. Increased productivity in farming greatly reduced the demand for labor in agriculture and thereby created a surplus of farm-born and farm-reared workers. This surplus of labor provided resources for rapid growth of the nonfarm economy. However, demand for labor varied among regions and not all areas of the country were equally successful in providing nonfarm jobs for workers displaced from agriculture. In addition, nonfarm demand for labor has varied over time. The growth of the large manufacturing cities in the Northeast and the Lake States during the late 19th century and early decades of this century are examples of the early successes that some areas had in creating new jobs for people leaving farming. Later, scattered metropolitan areas of the Midwest, South and West also grew and attracted surplus labor from American farms and farm-based communities.

During most of the post-World War II period, many rural areas experienced declining or slow-growing employment opportunities. Between 1940 and 1970, employment increased slowly in nonmetro areas (Table 1). Although many rural jobs opened in manufacturing, construction, government and service-producing industries, job losses in agriculture and other natural resource industries such as forestry and mining were largely offsetting. During this period, nonmetro areas were simply unable to generate sufficient jobs to fully absorb additions to their labor force. As a result, many rural people migrated to metropolitan areas to find jobs. For example, in the 1950's U.S. nonmetro areas gained only one manufacturing job for every three they lost in the natural resource industries. By the 1960's, gains in manufacturing were beginning to offset losses in the natural resource industries. Finally in the late 1960's and early 1970's a large number of rural communities began to gain sufficient nonfarm jobs to more than offset their losses in farm employment. This turn-around in total employment growth resulted from growth in manufacturing and service-producing jobs in rural America. Increases during the 1970's occurred in service industries, government, manufacturing, construction, and even in the natural resource industries. Manufacturing employment continued to increase rapidly in nonmetro areas during the sixties and seventies while faltering in metro areas. Associated with the rapid employment growth was the well-publicized revival of rural population growth. The population growth rate for the decade of the 1970's was higher (14.4 versus 10.5 percent) in rural and small town communities than in metro areas during the seventies.



Table 1 — Components of U. S. nonmetro employment change

Industry	Time period			
	1940-50	1950-60	1960-70	1970-80
	-----Million employees-----			
Total	2.08	0.26	2.07	5.99
Resource-based	-1.11	-2.34	-1.32	.18
Service and government	1.82	1.68	2.20	4.41
Manufacturing and construction	1.36	.92	1.20	1.40

Source: Bureau of Census.



## The South

The southern economy continued to be highly dependent on resource-based industries (agriculture and mining) when the rest of the country was making the transition to a modern industrialized economy. By 1940, over one-third of all the employment in the South was still in agriculture, compared to only 19 percent nationwide. In the next 40 years the transformation of the South was quite rapid and spectacular. Today, the South enjoys a modern economy that is well-diversified into manufacturing and service-producing industries. Recent farm population and employment numbers for the South confirm the late but fairly rapid transformation of the southern economy. For example, the 1980 farm population comprised only 2.4 percent of the total population and 17.1 percent of the rural population while farm employment accounted only for 3.2 percent of total employment. Except for the proportion of the rural population living on farms in the U.S. (9.5 percent), the national percentages for rural population (2.5) and farm employment (3.0) were virtually the same as those found in the South.

The transformation of the southern economy from one highly dependent on agriculture to one dependent on manufacturing and service-producing industries was accomplished at the expense of a massive displacement of farmers and farm workers. During the 1940's the South lost over 1 million jobs in agriculture; in the 1950's and 1960's the respective losses reached 1.5 million and 800,000 jobs (Figure 1).

The massive exodus from southern agriculture created a surplus labor force that was willing and eager to work for low wages. If displaced farmers and farm workers could not find employment in the local community, their alternative was to migrate to other parts of the country in search of better opportunities. In fact, this proved to be the only alternative for many young adults who migrated from the South. In the short span of two decades, 1940-60, net migration losses for the South totalled over 4.0 million people (Figure 2). This migration could be attributed, in large part, to the failure of the southern economy to generate a sufficient number of jobs to offset losses in agricultural employment or to provide sufficient employment opportunities for its growing population.

The massive migration of people from agriculture was virtually over by the 1970's. U.S. agricultural employment in 1970 had been reduced to less than 3 million jobs and represented less than 4 percent of total employment. In the South, agricultural employment totalled only 1 million jobs in 1970, compared with 4.4 million jobs just 30 years earlier. The decade of the 1970's brought 1.2 million additional manufacturing jobs to the South while the number of jobs in agriculture virtually stabilized. During this period population increased 20 percent in the South—almost double the U.S. rate of 11.4 percent (Table 2). In fact, every state of the South experienced faster population growth than the nation as a whole; and, as one would have expected, population growth in the metro South was more rapid (21.7 percent) than in the nonmetro South (16.5 percent). A large part of this population increase was due to the substantial net migration to the South during the 1970's, which totalled over six million people. This in-migration was pervasive among all the southern states. If Texas and Florida are excluded from consideration, the remaining southern states still gained 2.2 million migrants. For many of these states, the population turnaround came only after decades of constant losses of people through out-migration.

During the era of mass displacement from agriculture, manufacturing became a consistent, if limited, source of southern employment. Southern manufacturing provided 800,000 new jobs during the 1940's, 1.5 million in the 1950's, and even more in the 1960's and 1970's. The growth in manufacturing employment during the four decades exceeded the decline in agriculture by 750,000 jobs, thus transforming the southern economy from one based on agriculture to one based on manufacturing.

Today, the percent of manufacturing workers in the South is still about 1.6 percentage points below the national average (19.1 percent in 1983) (Table 3). The somewhat lower percentage results from the growing dependence of the metro South on service producing jobs. In 1983, only 15.5 percent of the jobs in metro South were in manufacturing. In contrast, nonmetro areas



# Employment Changes in the South, 1940-80

Employment (million)

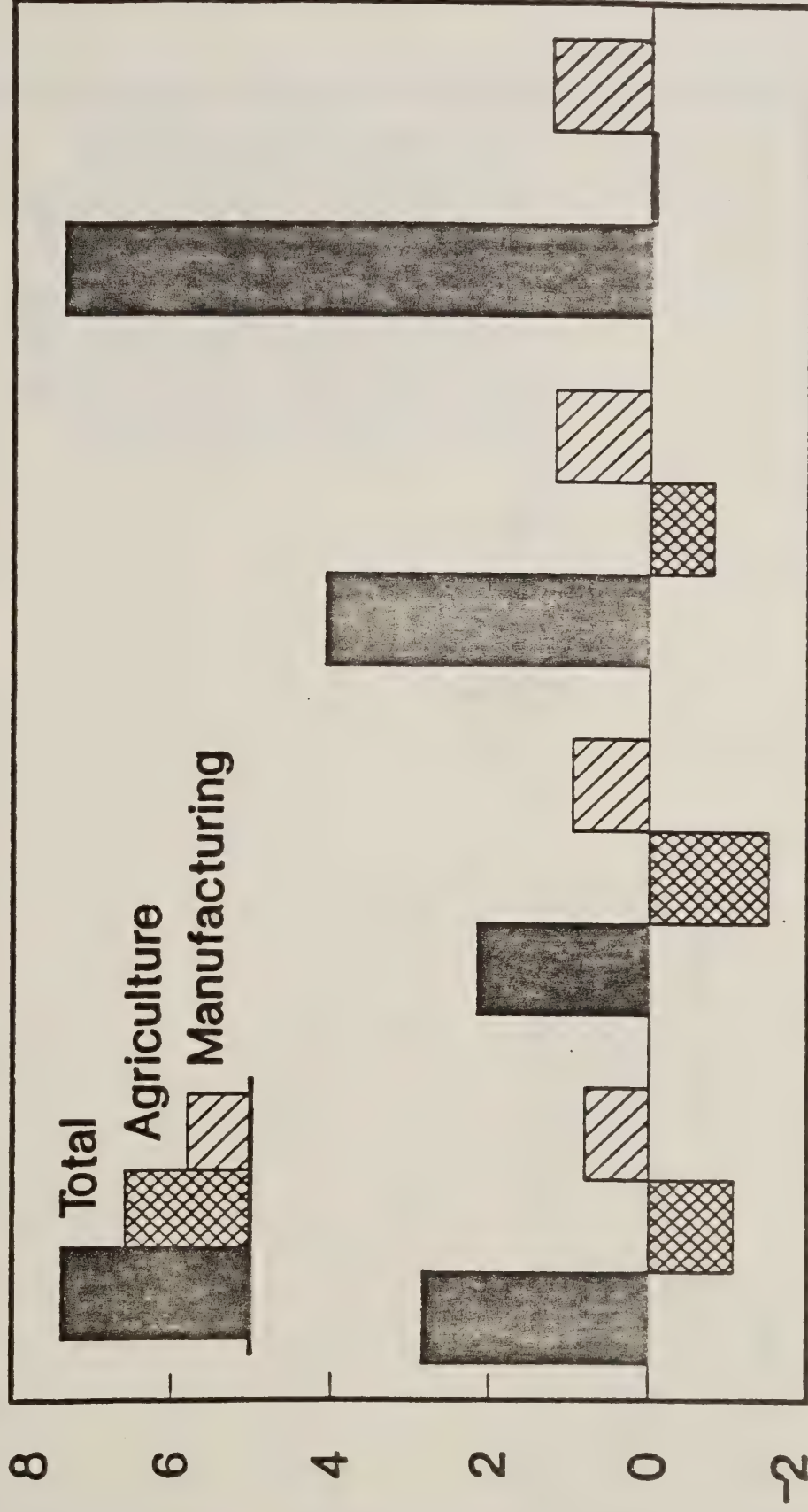


FIGURE 1



# The South's Net Migration, 1940-80

Million

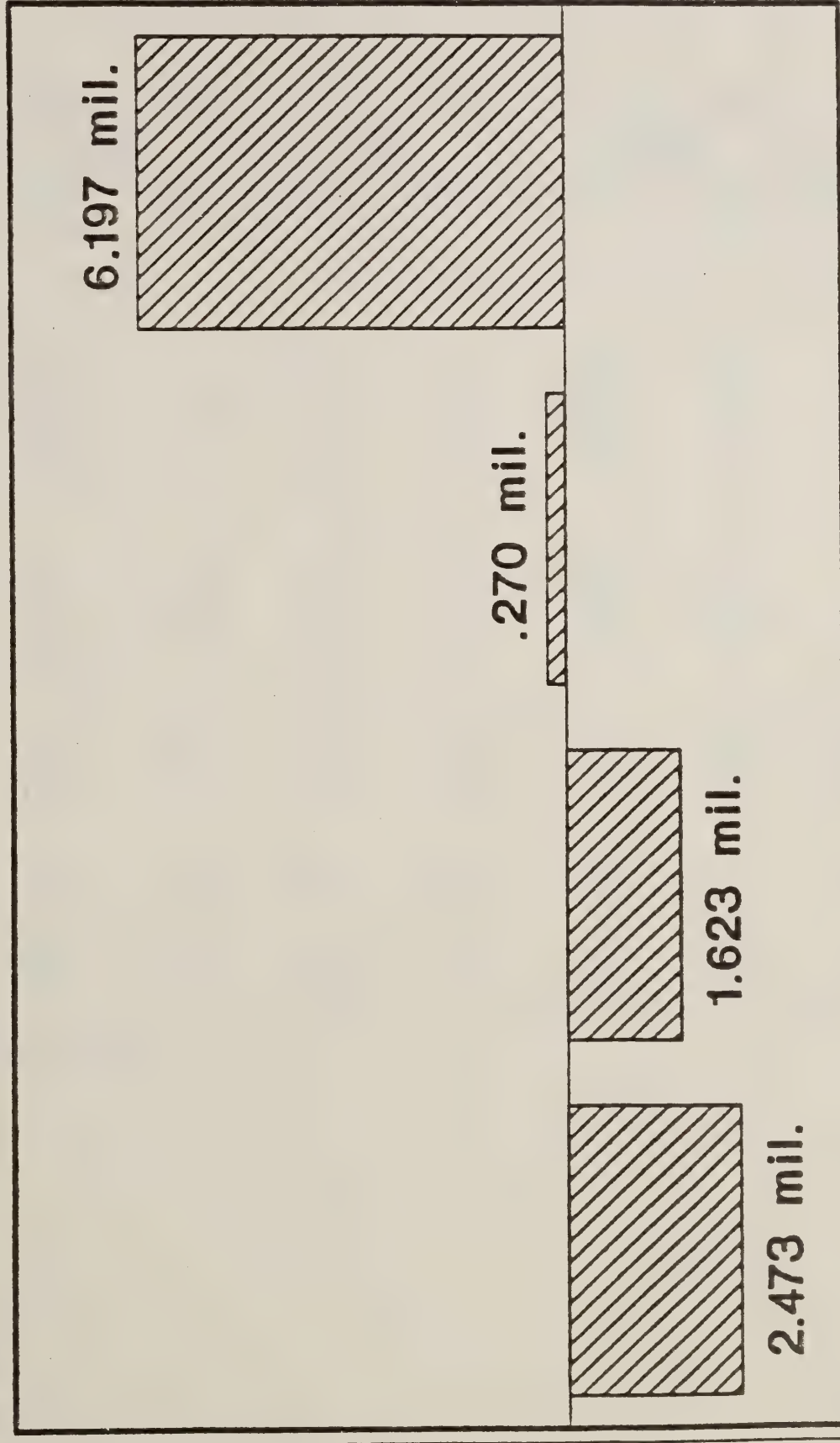


FIGURE 2



Table 2. Population growth rates for the South 1970-80, 1980-84

	Total		Metro		Nonmetro		Nonmetro	
	1970-80	1980-84	1970-80	1980-84	1970-80	1980-84	1970-80	1980-84
<i>-----Percent Change-----</i>								<i>Ave. Annual -----Pct. Change-----</i>
Appalachia:								
Kentucky	13.7	1.7	8.2	0.9	18.7	2.4	1.9	0.6
North Carolina	15.7	4.8	16.3	5.3	14.9	4.3	1.5	1.1
Tennessee	16.9	2.7	16.0	3.0	18.8	2.3	1.9	0.6
Virginia	15.0	5.4	14.2	6.9	16.7	1.8	1.7	0.5
West Virginia	11.8	0.1	5.1	-1.0	16.1	0.8	1.6	0.2
Southeast:								
Alabama	13.1	2.5	13.5	2.8	12.3	1.9	1.2	0.5
Florida	43.5	12.6	42.5	12.1	53.7	17.3	5.4	4.3
Georgia	19.1	6.8	21.2	8.8	15.7	3.6	1.6	0.9
South Carolina	20.5	5.7	24.0	6.0	15.6	5.3	1.6	1.3
Delta:								
Alabama	18.9	2.7	21.2	3.2	17.5	2.4	1.8	0.6
Louisiana	15.5	6.1	18.7	6.5	8.9	5.2	0.9	1.3
Mississippi	13.7	3.1	26.9	6.2	9.2	1.8	0.9	0.5
Southern Plains:								
Oklahoma	18.3	9.0	20.4	10.6	15.5	7.0	1.6	1.8
Texas	27.1	12.4	29.7	13.4	17.7	8.4	1.8	2.1
South, Total <sup>1</sup>	20.0	6.9	21.7	8.1	16.5	4.4	1.7	1.1
U. S.	11.4	4.2	10.5	4.5	14.4	3.4	1.4	0.9

<sup>1</sup>Includes MD, Delaware and D. C.



**Table 3. Percentage distribution of employment for the U. S. and nonmetro Southern Regions, 1983**

Region	Industry							All Other
	Total	Services	Trade	Government	Manufacturing			
					Total	Durable	Nondurable	
	-----Percent of Total-----							
United States, total	100.0	33.4	21.7	19.4	19.1	11.1	8.0	6.4
U. S. metro	100.0	25.9	19.5	22.4	21.8	10.8	11.0	10.4
South, total	100.0	31.1	21.4	21.7	17.5	8.2	9.3	8.3
South nonmetro	100.0	23.6	17.9	21.9	25.6	10.2	15.4	11.0
Appalachia, nonmetro	100.0	22.3	17.5	20.8	29.2	11.4	17.8	10.2
Southeast, nonmetro	100.0	23.4	16.7	22.2	29.8	9.7	20.1	7.9
Delta, nonmetro	100.0	25.1	17.8	22.7	24.0	12.0	12.0	10.4
S. Plains, nonmetro	100.0	25.0	20.1	22.9	11.9	7.2	6.7	18.3

Source: Bureau of Economic Analysis, U. S. Department of Commerce.



of the South had 25.6 percent of their employment in manufacturing—6.5 percentage points above the national average. Among the regions of the South, the Southeast and Appalachian nonmetro areas had almost 30 percent of their employment in manufacturing. The idea that the South is dependent on manufacturing appears to be much more of a nonmetro phenomenon. And, the one point that is clear is that the southern nonmetro areas do have a more consistent record of creating manufacturing jobs than the country as a whole.

### NONMETRO SOUTH IN THE 1980's

In the late 1960's and in the 1970's many southern nonmetro areas began to prosper because of increasing job opportunities in local manufacturing and greatly reduced impacts of job losses in southern agriculture. By the early 1980's agriculture was no longer the dominant source of economic activity; manufacturing had become the dominant economic force in much of the nonmetro South. In 1983, 25.6 percent of nonmetro South's employment was in manufacturing industries, compared to 19.1 percent for the U.S. economy as a whole (Table 3). Even more notable was the large U.S./nonmetro South difference in dependence on nondurable goods manufacturing as a source of employment. Employment in nondurable goods manufacturing accounted for 15.4 percent of the total employment in nonmetro South in 1983, compared with only 8.0 percent for the U.S. as a whole. In the nonmetro areas of the Southeastern region employment in the nondurable goods manufacturing reached 20.1 percent of all employment—over twice the national proportion.

The growth and increasing specialization in manufacturing has also made the nonmetro economies of the South more vulnerable to the vagaries of the business cycle. Between 1969 and 1979 manufacturing wage and salary employment in nonmetro South increased almost 23 percent while comparable U.S. employment increased only about 4 percent (Figure 3). In the following 4 years, manufacturing employment declined 7 percent in the nonmetro South and almost 13 percent nationwide. An examination of manufacturing employment changes during the different phases of the last 4 business cycles (1969-83) clearly shows that adjustments in the southern nonmetro economy, especially during downturns, are becoming more and more similar to the national experience (Table 4). For example, in the 1969-70 downturn manufacturing employment in the nonmetro South decreased 0.2 percent, compared with a 4.2 percent decrease for the U.S. economy as a whole. But, in each of the three following downturns (1973-75, 1979-80, 1981-82) the manufacturing employment decline rate in the nonmetro South differed from the respective U.S. rate by less than one percentage point. There has been a similar, although less pronounced, convergence of growth rates during business cycle upturns. During the 1970-73 recovery period, manufacturing employment growth rate in the nonmetro South exceeded the U.S. rate by nearly 11 percentage points. In the following recoveries (1975-79, 1980-81, 1982-83), the nonmetro South/U.S. growth rate differential narrowed to 2.7 percentage points.

Throughout much of the 1970's unemployment rates for the nonmetro South were near U.S. levels (Figure 4). In 1979 and in the early 1980's, unemployment rates for southern nonmetro areas began to exceed the U.S. rate. The annual average unemployment rates for the U.S. peaked in 1982 at 9.7 percent. In the nonmetro South the average unemployment rate peaked in 1983 at 11.6 percent, two percentage points above the U.S. rate. During this period much lower rates prevailed in most southern metro areas (Table 5). Nonmetro unemployment rates during the early 1980's were particularly high in the Southeastern states and low in the Southern Plains states of Texas and Oklahoma (Figure 5). For nonmetro areas of the Delta and Appalachia, unemployment rates peaked in 1983 at 13 percent, 3 percentage points above the U.S. rate. In 1984, unemployment in the nonmetro portion of the Delta states still remained at 11.2 percent, almost 4 percentage points above the U.S. rate.

A recent Economic Research Service study has delineated U.S. nonmetro counties according to their primary sources of economic activity.<sup>1</sup> In this delineation, a county is defined as manufacturing-dependent if at least 30 percent of the income in the county was derived from manufactur-



# Index of Growth in Manufacturing Employment

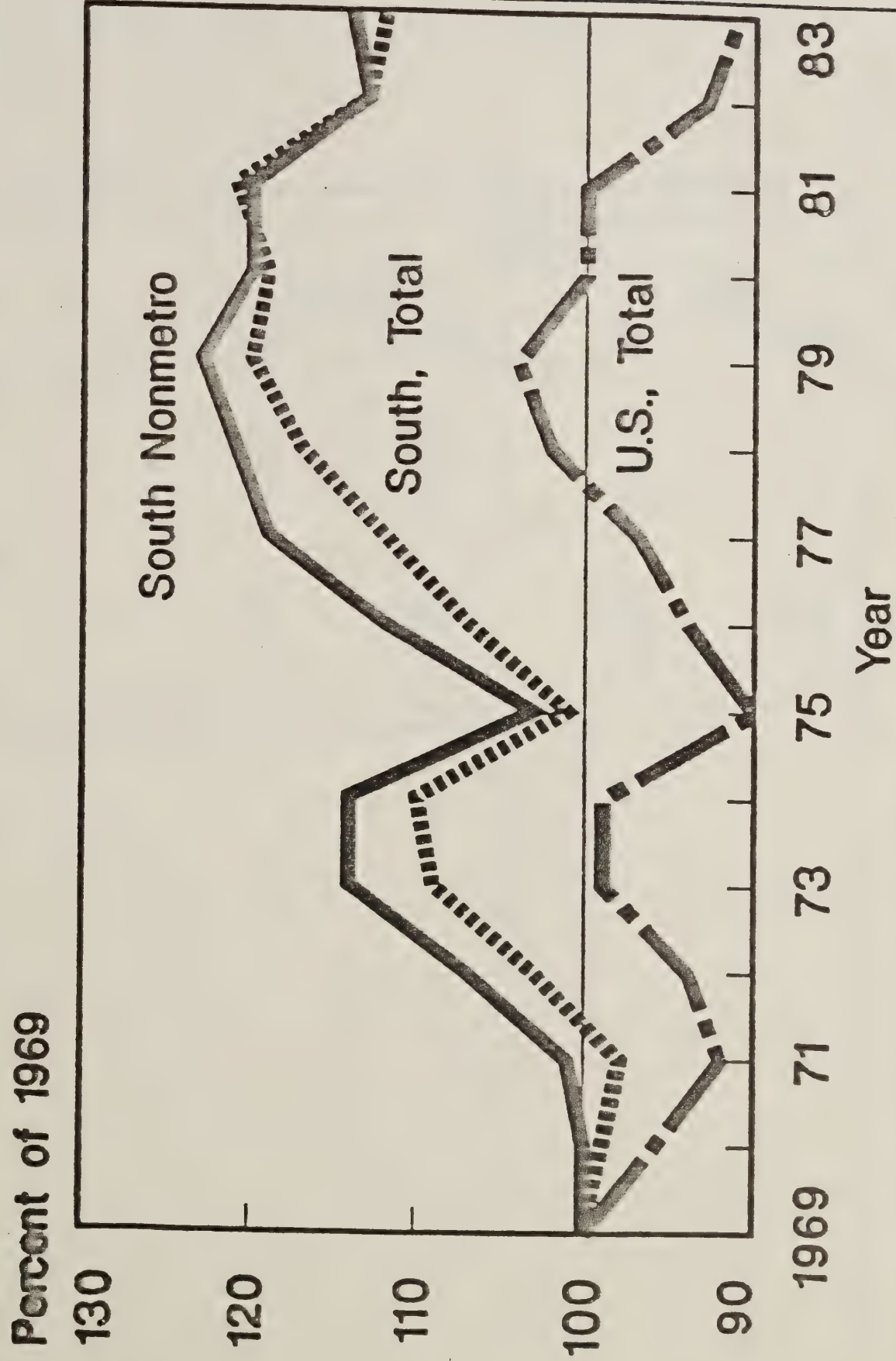


FIGURE 3



Table 4. Manufacturing employment growth rates over the business cycle, 1969-83

Business Cycle Phase	Growth Rate			
	United States		South	
	Total	Nonmetro	Total	Nonmetro
<b>Peak-To-Trough</b>				
1969-70	-4.2	-2.0	-1.2	-0.2
1973-75	-8.8	-9.3	-7.6	-9.4
1979-80	-3.5	-4.6	-.9	-2.6
1981-82	-6.8	-7.3	-6.2	-6.2
<b>Trough-To-Peak</b>				
1970-73	+3.5	+11.5	+10.5	+14.2
1975-79	+15.2	+18.2	+18.8	+19.0
1980-81	-.5	-.8	+1.6	+.3
1982-83	-2.2	+.5	-1.5	+1.2

Source: Bureau of Economic Analysis, U. S. Department of Commerce.



# Unemployment Rates, 1976-84

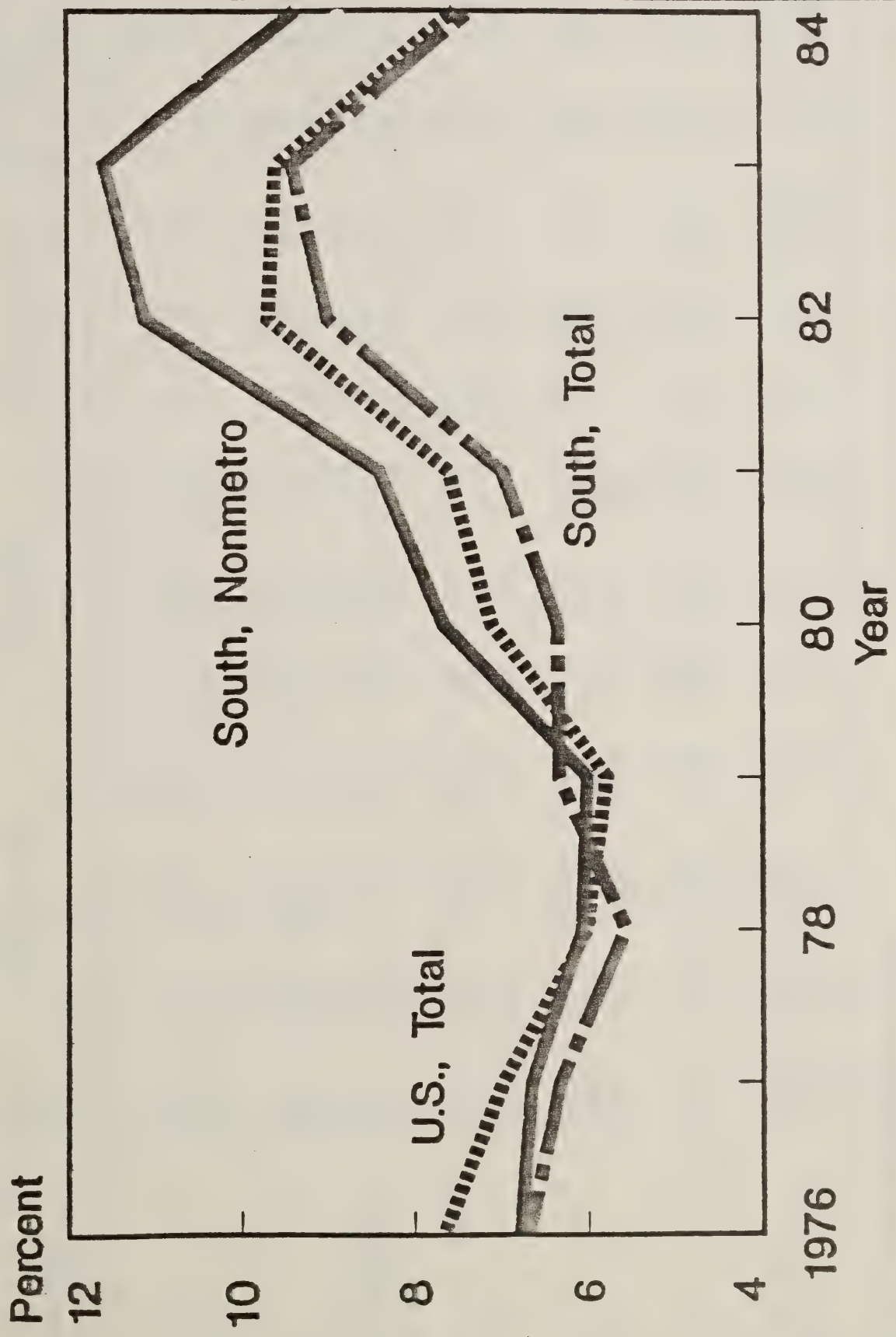


FIGURE 4



Table 5. Trends in civilian labor force, employment and unemployment, 1979-84

Areas and type of county <sup>1</sup>	Number of counties	Civilian labor force				Employment				Unemployment rate				Civilian labor force growth				Employment growth			
		1979	1982	1984	1979	1982	1984	1979	1982	1984	1979-82	1982-84	1979-82	1982-84	1979-82	1982-84					
		Thousands								Percent											
United States	3,140	104,993	110,355	113,495	98,912	99,663	104,959	5.79	9.69	7.52	5.11	2.85	0.76	5.31	5.89	3.30	5.31				
Metro	735	81,140	85,343	88,210	76,524	77,421	81,983	5.69	9.28	7.06	5.18	3.36	1.17	5.89	5.89	3.30	5.89				
Nonmetro	2,405	28,853	25,012	25,285	22,388	22,242	22,976	6.14	11.07	9.13	4.86	1.09	-0.65	3.30	3.30	0.65	3.30				
The South	1,397	30,925	33,683	35,170	29,296	30,606	32,585	5.27	9.14	7.35	8.92	4.41	4.47	6.47	6.47	4.47	6.47				
Metro	330	21,058	23,157	24,427	20,023	21,246	22,850	4.91	8.25	6.46	8.97	5.48	6.11	7.55	7.55	6.11	7.55				
Nonmetro	1,067	9,867	10,527	10,743	9,273	9,360	9,735	6.02	11.08	9.38	6.68	2.06	0.94	4.01	4.01	0.94	4.01				
Farm-dependent	235	1,123	1,197	1,227	1,052	1,071	1,108	6.32	10.53	9.70	6.59	2.51	1.91	3.45	3.45	1.91	3.45				
Manufacturing-dep.	366	4,446	4,661	4,733	4,180	4,090	4,293	5.98	12.25	9.30	4.84	1.54	-2.15	4.96	4.96	-2.15	4.96				
Mining-dep.	114	888	982	947	832	879	836	6.31	10.58	11.72	10.70	-3.66	4.65	-4.89	-4.89	4.65	-4.89				
Appalachia	506	9,746	10,190	10,582	9,232	9,180	9,768	5.27	9.91	7.69	4.56	3.85	-0.56	6.41	6.41	-0.56	6.41				
Nonmetro	375	3,935	4,083	4,158	3,684	3,576	3,736	6.38	12.42	10.15	3.76	1.84	-2.93	4.47	4.47	-2.93	4.47				
Metro	131	5,911	6,107	6,424	5,548	5,604	6,032	4.53	8.24	6.10	5.09	5.19	1.01	7.64	7.64	1.01	7.64				
Southeast	339	9,638	10,620	11,131	9,077	9,615	10,338	5.82	9.46	7.12	10.19	4.81	5.93	7.52	7.52	5.93	7.52				
Nonmetro	239	2,431	2,619	2,668	2,279	2,314	2,431	6.25	11.65	8.88	7.73	1.87	1.54	5.06	5.06	1.54	5.06				
Metro	100	7,207	8,001	8,463	6,798	7,301	7,907	5.68	8.75	6.57	11.02	5.77	7.40	8.30	8.30	7.40	8.30				
Delta	221	3,742	3,954	4,057	3,507	3,544	3,654	6.28	10.37	9.93	5.67	2.60	1.06	3.10	3.10	1.06	3.10				
Nonmetro	185	1,815	1,897	1,926	1,692	1,674	1,710	6.78	11.76	11.21	4.52	1.53	-1.06	2.15	2.15	-1.06	2.15				
Metro	36	1,927	2,057	1,131	1,815	1,870	1,944	5.81	9.09	8.78	6.75	3.60	3.03	3.96	3.96	3.03	3.96				
Southern Plains	331	7,799	8,919	9,400	7,480	8,267	8,825	4.09	7.31	6.12	14.36	5.39	10.52	6.75	6.75	10.52	6.75				
Nonmetro	268	1,686	1,927	1,991	1,618	1,796	1,858	4.03	6.80	6.68	14.29	3.32	11.00	3.45	3.45	11.00	3.45				
Metro	63	6,113	6,992	7,409	5,862	6,471	6,967	4.11	7.45	5.97	14.38	5.96	10.39	7.66	7.66	10.39	7.66				

<sup>1</sup>Metro and nonmetro areas are defined as of 1983.



ing earnings in the late 1970's. According to this delineation over half (54 percent) of the 678 manufacturing-dependent counties in the U.S. are located in the nonmetro South, mostly in the Southeastern states (Figure 6). These manufacturing-dependent counties were particularly hard-hit by the 1980 and 1981-82 recessions. Employment in these areas decreased 2.2 percent during 1979-82, while nonmetro employment in the South increased 0.9 percent, and unemployment reached 12.3 percent in 1982, one percentage point above the southern nonmetro rate and 2.6 points above the U.S. rate. During the 1982-84 recovery, employment growth in the manufacturing-dependent counties averaged about 5 percent, slightly (0.4 percentage points) below the U.S. rate. But, the unemployment rate in 1984 still hovered around 9.3 percent, 1.8 percentage points above the U.S. rate and 2.8 points above the southern metro rate.

It should be noted that manufacturing is not the only dominant economic force in the nonmetro South. There are some 114 counties (out of 200 nationwide) where 20 percent or more of the income in the county was derived from mining in 1979. And, despite the dramatic decline in the importance of agriculture to the southern nonmetro economy, there remain 235 southern nonmetro counties whose economies are highly dependent upon farming (i.e., 20 percent or more of county income comes from agriculture). The mining counties are concentrated in the coal-producing areas of eastern Kentucky, West Virginia, and southwestern Virginia, and in the oil-producing areas of Texas, Oklahoma and southern Louisiana (Figure 7). The southern farming-dependent counties are located mostly along the Mississippi River Delta in Arkansas, Mississippi, Louisiana, and in parts of the Southeast (Figure 8).

The 1980's have not been very good years for the mining-dependent areas nor for the farming-dependent areas. The unemployment rate in the mining counties averaged 11.7 percent in 1984, 2.3 percentage points higher than the overall nonmetro rate in the South and 4.2 points higher than the U.S. rate. In the farming-dependent counties, the 1984 unemployment rate hovered at 9.7 percent, over 2 percentage points above the national rate. During the 1982-84 upturn in national employment (a period of 5.3 percent growth for the U.S.) the southern mining-dependent counties lost 5 percent of all jobs while the farming-dependent areas increased employment at slightly below 5 percent. These statistics appear to confirm that major problems of current global competition in energy production (both oil and coal) and in export markets for U.S. agricultural commodities are impacting on specific nonmetro areas of the South.

## CURRENT SITUATION IN U.S. AND SOUTHERN AGRICULTURE

### National Overview

The current financial distress among farmers, farm lenders and farm-based communities and regions is rooted in excesses induced by the inflationary conditions of the 1970's and exaggerated expectations of worldwide demand for farm products. These excesses have made it extremely difficult or impossible for many farmers to adjust to the radically different economic conditions of the 1980's. Throughout the 1970's, there was a rapid expansion of U.S. agricultural capacity as farmers took advantage of accelerating inflation and very low to negative real interest rates (the nominal interest rate minus the inflation rate) (Figure 9). The value of the dollar was also generally low, making American products relatively cheap, and the value of agricultural exports expanded more than fivefold during the period. Farmers responded to these favorable conditions by borrowing heavily to invest in new capital equipment, new and costly production techniques, and increasingly expensive farmland. Farm debt rose, on average, more than 10 percent a year and tripled by 1980. Land values rose even faster, creating the expectation on the part of both farmers and lenders that investment in agriculture would continue indefinitely to be highly profitable and relatively free of risk. In this environment of rapid expansion, U.S. agricultural production surged and agri-businesses and farm-based communities and regions prospered.



# Unemployment Rates for Nonmetro Regions of the South

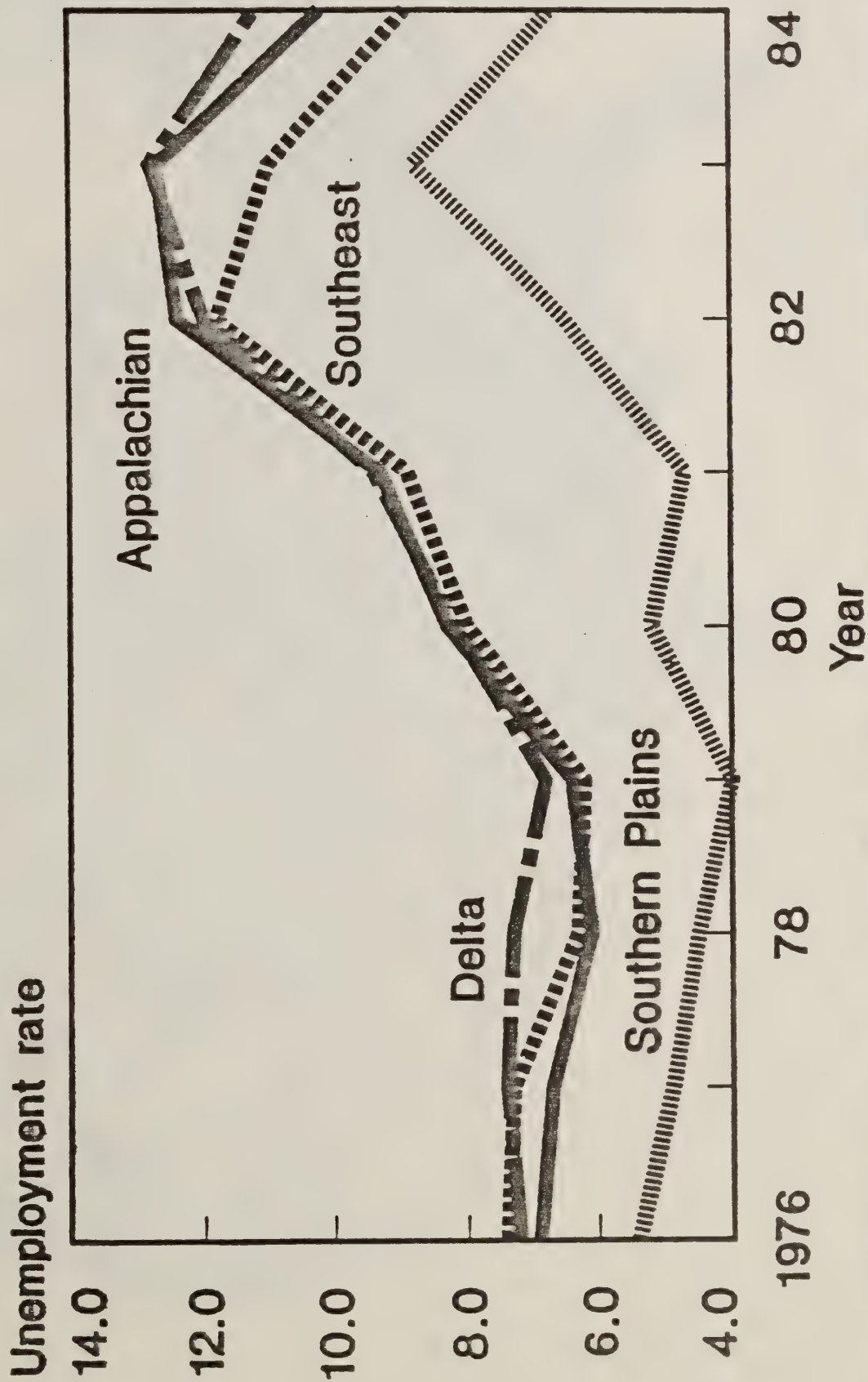
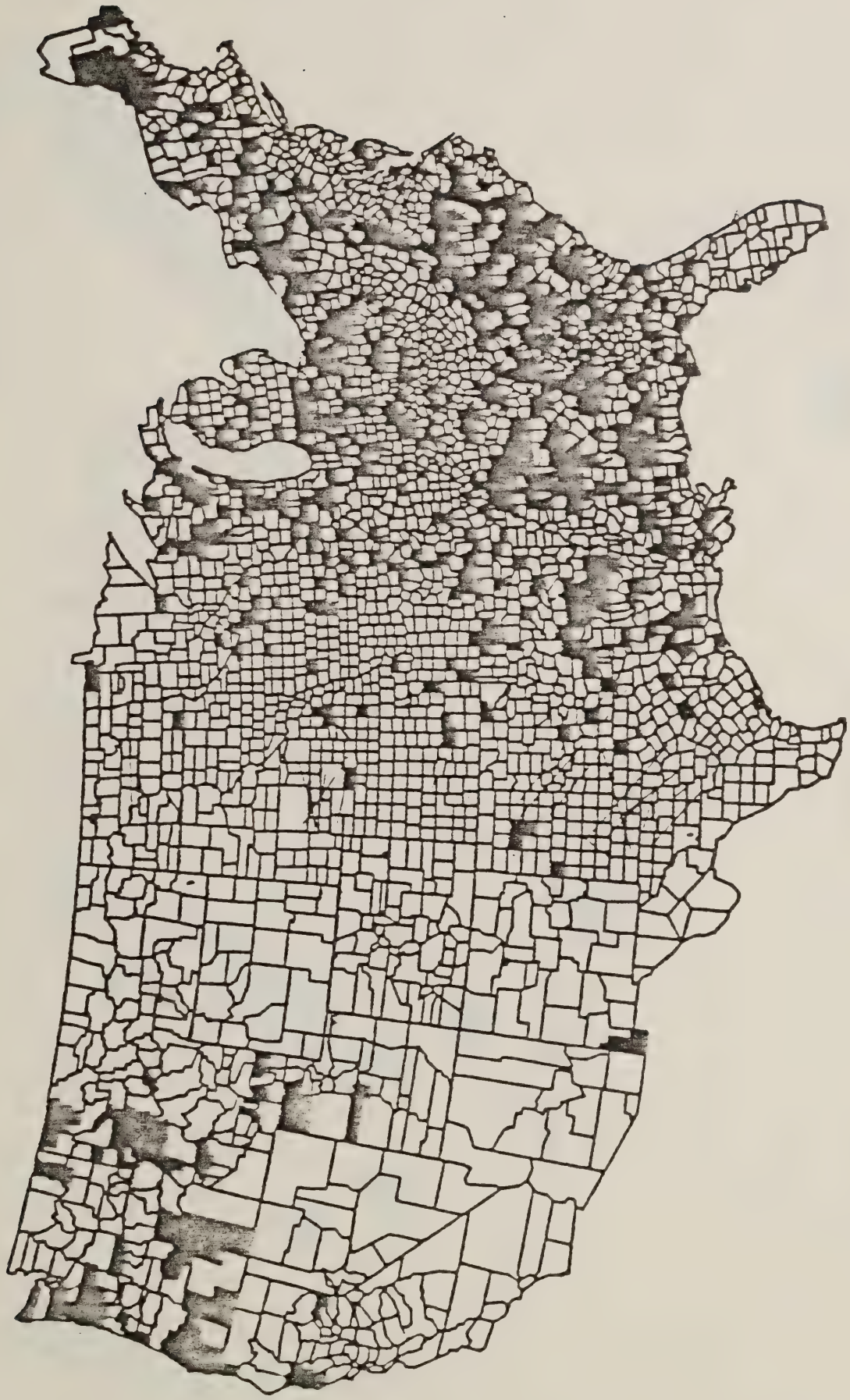


FIGURE 5



# MANUFACTURING COUNTIES



COUNTIES



NON MANUFACTURING



MANUFACTURING

FIGURE 6



# MINING COUNTIES

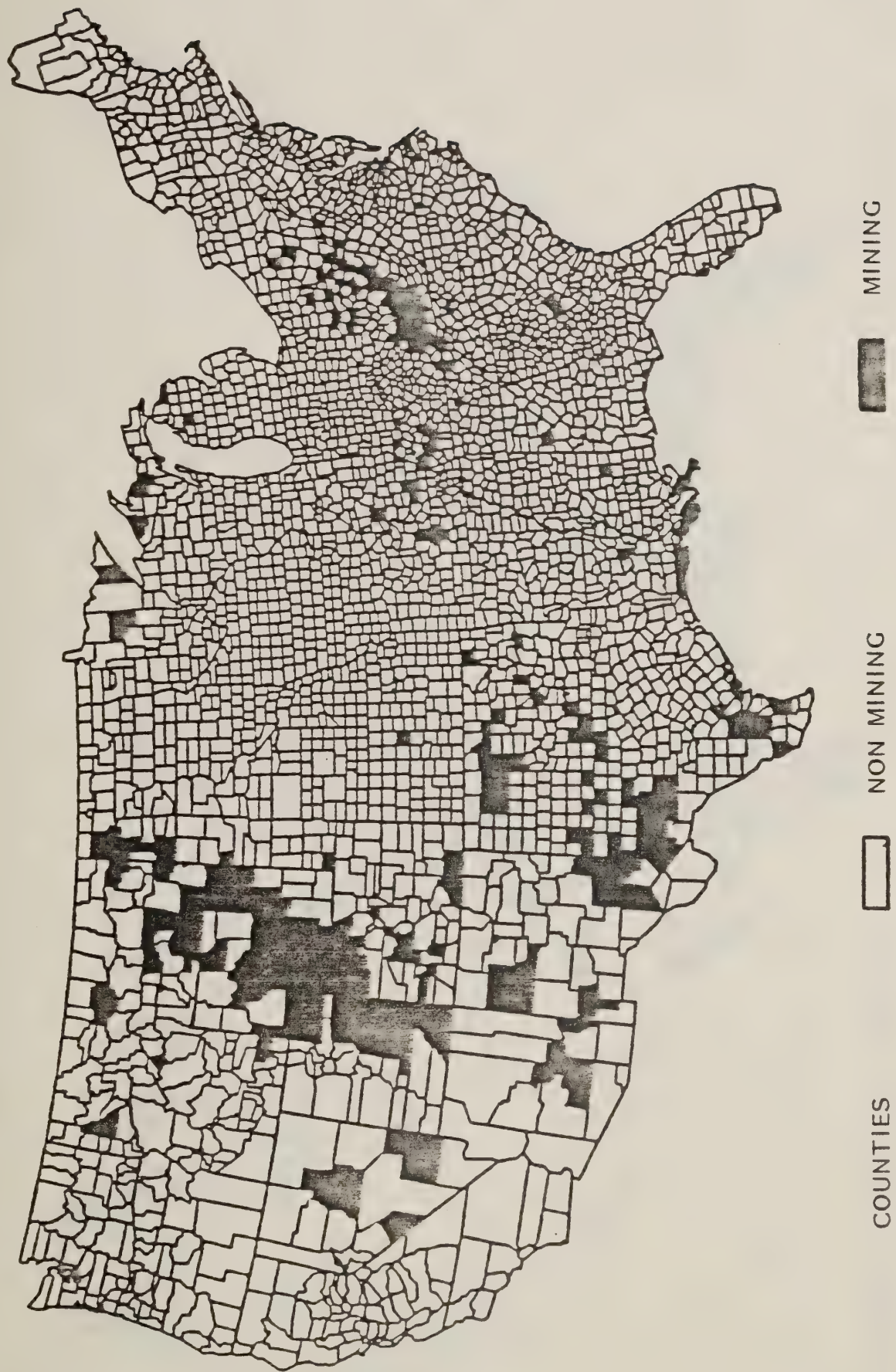


FIGURE 7



# NONMETRO AGRICULTURE COUNTIES



702 FARMING-DEPENDENT COUNTIES

20 percent or more of total labor and proprietor income was from production farming/ranching during 1975-79.

NONMETRO AGRICULTURE

FIGURE 8



## Major Economic Indicators in the U.S. Economy

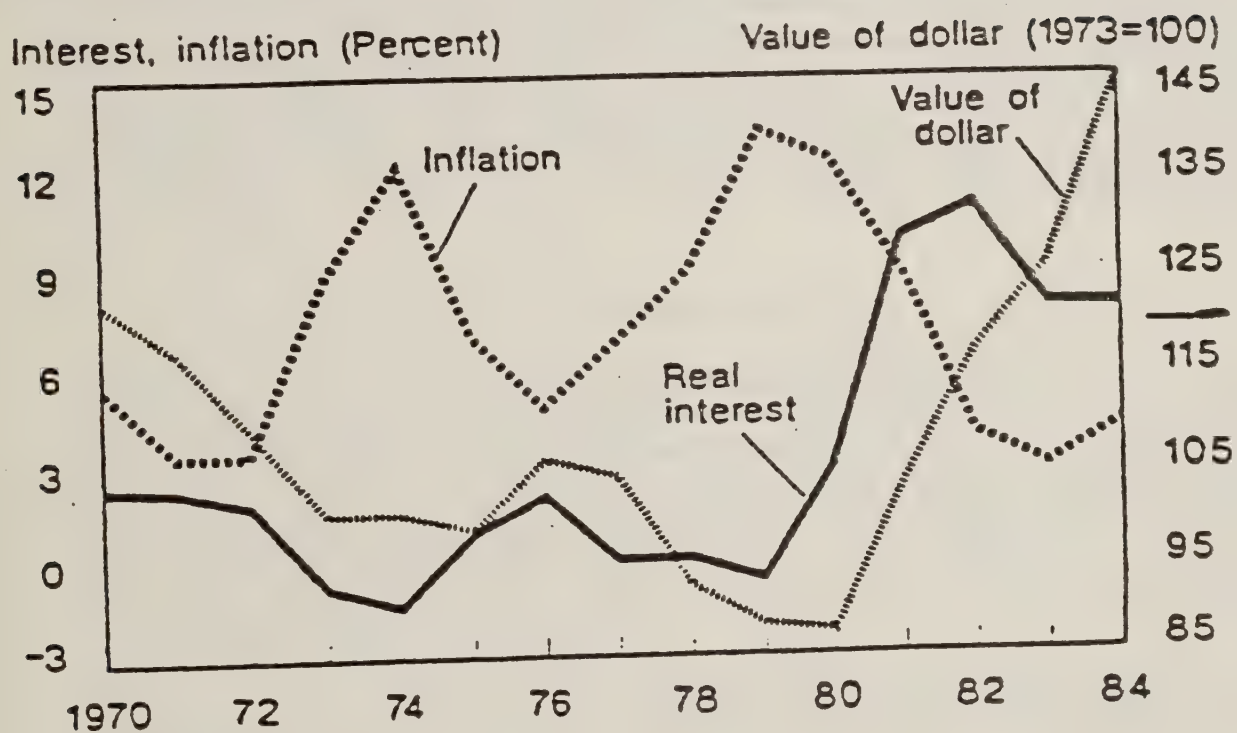


FIGURE 9



By the early 1980's, the factors that had given rise to economic expansion had reversed direction. Worldwide recession and the rise in the value of the dollar reduced the export demand for U.S. products. At the same time, relatively high loan rates for U.S. farm commodities, which set a floor under domestic prices of government supported farm commodities, provided incentives to other countries to substantially increase their grain supply. By 1984 these factors combined to sharply lower farm commodity prices, reduce farm income, and cut U.S. farm exports by 13 percent from the peak of 1981. On the cost side, farmers were hurt as inflation was slowed by stringent monetary controls, real interest rates rose to unprecedented levels of 8 to 10 percent, and prices paid by farmers began to exceed the prices they received. As net farm income plummeted, land values also declined because of expectations that returns to farming may be even lower in the future.<sup>2</sup> The debt levels that some farmers had incurred during the 1970's were no longer sustainable by their farming operations nor were they acceptable to their lenders in the changed economic environment of the 1980's. Farmland values in 1985 had declined 19 percent from their 1981 peak for the nation as a whole and values in some farm-dependent states and regions had fallen by almost 50 percent. As a result, many farmers who had borrowed heavily to purchase highpriced land and expensive farm machinery in the late 1970's found themselves approaching insolvency. For example, 7.3 percent of U.S. farmers in 1985 are very highly leveraged with a debt/asset ratio over 70 percent and some of them are operating under extreme financial stress.

### **Economic Health of the Farm Sector by Farm Production Regions**

Current debt/asset ratios and recent changes in farmland values are used to assess the economic health of the farm sector. The ratio of debts to assets is one of the primary indicators of a farm's overall financial soundness. Typically, farms are considered to be highly-leveraged if their debt/asset ratios reach 40 percent. At this degree of leverage, farmers start having problems meeting principal repayments, but they still have adequate net worth to collateralize loans. At debt/asset ratios of 70 percent, many farmers start having problems meeting both their principal and interest commitments. If their net worth continues to decline (because of falling land values), many of these farmers will approach insolvency.<sup>3</sup>

USDA's Farm Costs and Returns Survey, conducted in the spring of 1985, showed that the Northern Plains, Lake States, and Corn Belt have the highest proportion of highly and very highly leveraged farms. In each of these farm production regions a fourth of the farms were saddled with debt/asset ratios of 40 percent or more (Figure 10). In the South, however, only about 13 percent of the farms were highly or very highly leveraged. This was more or less typical in all the southern farms ranging from 9.5 percent in Appalachia to 17.8 percent in the Delta. The low proportion of farms under financial stress in the South may be explained in part by the region's small number of cash grain and dairy farmers who have been particularly hard hit by lower commodity prices. The critical factor, however, has been the relatively moderate decline in southern farmland values which have precluded large reductions in asset values and thereby prevented large increases in debt/asset ratios.

U.S. farmland values increased 37 percent during 1977-81, and then declined by 19 percent during 1981-85. Largest declines in farmland values occurred in the Corn Belt, Northern Plains, and the Lake States, which incurred losses of 33 percent or more (Table 6). In contrast, farmland values in the Southeast, Appalachia, and Delta declined less than 15 percent; and, in the Southern Plains farmland values actually increased some 29 percent. Whereas state-to-state percentage increases in farmland values during the earlier period tended to be somewhat uniform, declines since 1981 have been dramatic only in the major farm states of the Midwest. In Iowa and Nebraska the average value per acre of farmland has dropped more than 45 percent; in Arkansas and Oklahoma the average value per acre of farmland dropped only 19 percent. In the other southern states average declines in farmland values ranged from 18 percent in Mississippi to 6 percent in Florida and Virginia. It is apparent that regions of the Midwest, with high proportions of highly leveraged farms, currently have experienced the greatest declines in land values.



Figure 10 - Prevalence of highly leveraged farms and consequences in farmland values, by region

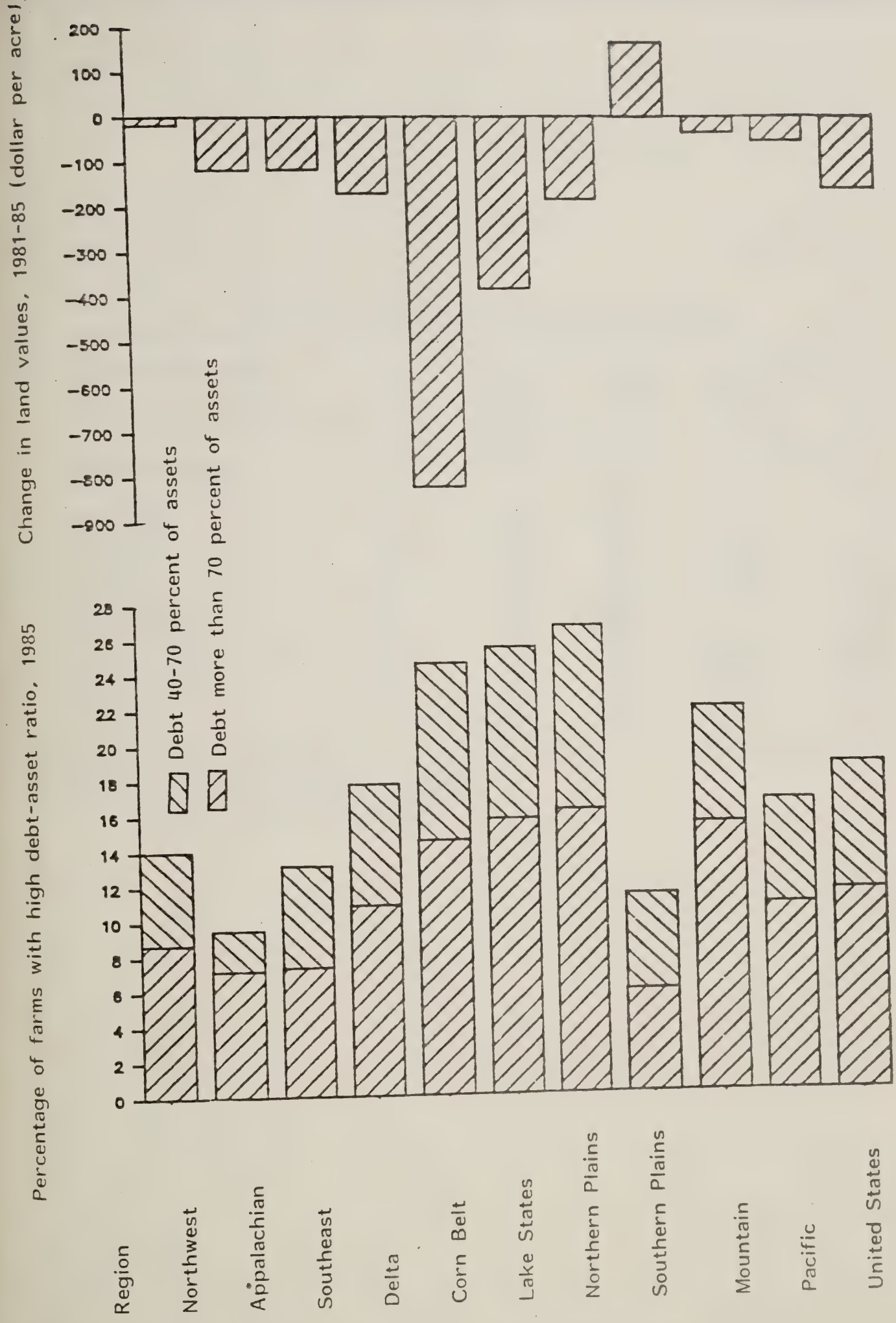




Table 6. Value per acre of farm land by production region

Farm production region	Year				
	1977	1981	1985	1977-81	1981-85
	-----Dollars-----			-----Change <sup>2</sup> -----	
United States, total <sup>1</sup>	539	850	691	36.6	-18.7
Northeast	901	1,309	1,292	31.2	-1.3
Appalachia	690	1,043	927	33.8	-11.1
Southeast	715	1,097	982	34.8	-10.5
Delta	585	1,142	973	48.8	-14.8
Corn Belt	1,241	1,893	1,069	34.4	-43.5
Lake States	663	1,154	771	42.5	-33.2
Northern Plains	373	542	358	31.2	-33.9
Southern Plains	359	566	732	36.6	29.3
Mountain	231	365	330	36.7	-9.6
Pacific	774	1,354	1,300	42.8	-4.0

<sup>1</sup>U. S. totals do not include Alaska and Hawaii.

<sup>2</sup>Based on index of average value per acre, 1981=100.

Source: Economic Research Service, USDA.



The South which has experienced only slight decreases (or increases) in farmland values during the 1980's appears to have relatively fewer farmers undergoing financial stress.

### **Export-Sensitive Farm Commodities and Farm Sector Stress**

Investment in the farm sector in the mid and late 1970's was spurred by the growth in the U.S. farm exports. During 1975-81, the value of farm exports doubled. Farm commodities contributing heavily to this growth included corn, wheat, soybeans, and cotton. These commodities accounted for about three-fourths of the growth in the U.S. farm exports from 1970 to 1981. Since their peak of 1981, exports of these commodities have declined 14 percent.

Decreased foreign demand, partly due to increased production by other countries, has reduced commodity prices and farm income. In states and communities where production of export-sensitive farm commodities is the dominant activity, reduced exports have translated into a slowdown in overall economic activity. This, in turn, has led to a loss of jobs and increased pressures for population out-migration.

Production of export-sensitive farm commodities is heavily concentrated in a few major producing states. In 1982, seven states produced 75 percent of the U.S. corn crop, 66 percent of the soybean crop, 57 percent of the wheat crop, and 89 percent of the cotton crop. Among these major producers, relatively few southern states are to be found. Although one can find Texas, Mississippi, Louisiana, Arkansas, and Alabama among the top 7 cotton producers with 54 percent of the crop, there is no southern state among the top 7 corn producers. Among the top soybeans and wheat producers there is only Arkansas with 5 percent of the soybeans crop and Oklahoma and Texas with 7 and 5 percent of the wheat crop, respectively. Within these major producing states, those communities which have little economic activity outside the farm sector must be currently hard pressed to find new options for future economic growth.

Overall dependence on export-oriented farm commodities is particularly acute in the Delta. Farm-dependent counties in this region are very dependent on commodities whose export markets had expanded rapidly during the 1970's, but declined substantially during the 1980's. In these areas export-oriented commodities accounted for 40 percent of all farm sales in 1982 (Figure 11). In contrast, sales of export-oriented commodities accounted only for about 19 percent of total farm sales in Appalachia, 18 percent in the Southern Plains, and only 14 percent in the Southeast.

### **Importance of Nonfarm Opportunities in Dampening Farm Stress**

In 1982, 37.8 percent of all U.S. farm operators worked 200 days or more in off-farm jobs (Figure 12). But, in many farm-dependent areas such off-farm employment opportunities are not prevalent, or if they are, the structure of farming precludes farm operators from participation in off-farm employment. The lack of off-farm opportunities appears to be the case in the farm-dependent counties of the Northern Plains and the Corn Belt where the percentage of farm operators reporting off-farm work was substantially below the U.S. average. In farm-dependent counties of the Lake States, the low percentage of farmers with off-farm work probably resulted from farm structure, that is, specialization in dairy operations. In the 4 regions of the South, on the other hand, the portion of farmers who worked off-farm was much higher than nationwide. This is a reflection of the prevalence of nonfarm alternatives brought about by changes in the industrial structure of the South during the 1960's and 1970's. It is also an indicator of how nonfarm job alternatives can dampen a region's or community's vulnerability to the current financial crises in farming.



# Dependence on Export-Oriented Comomodities, 1982

% sales from corn, wheat, soybeans, cotton

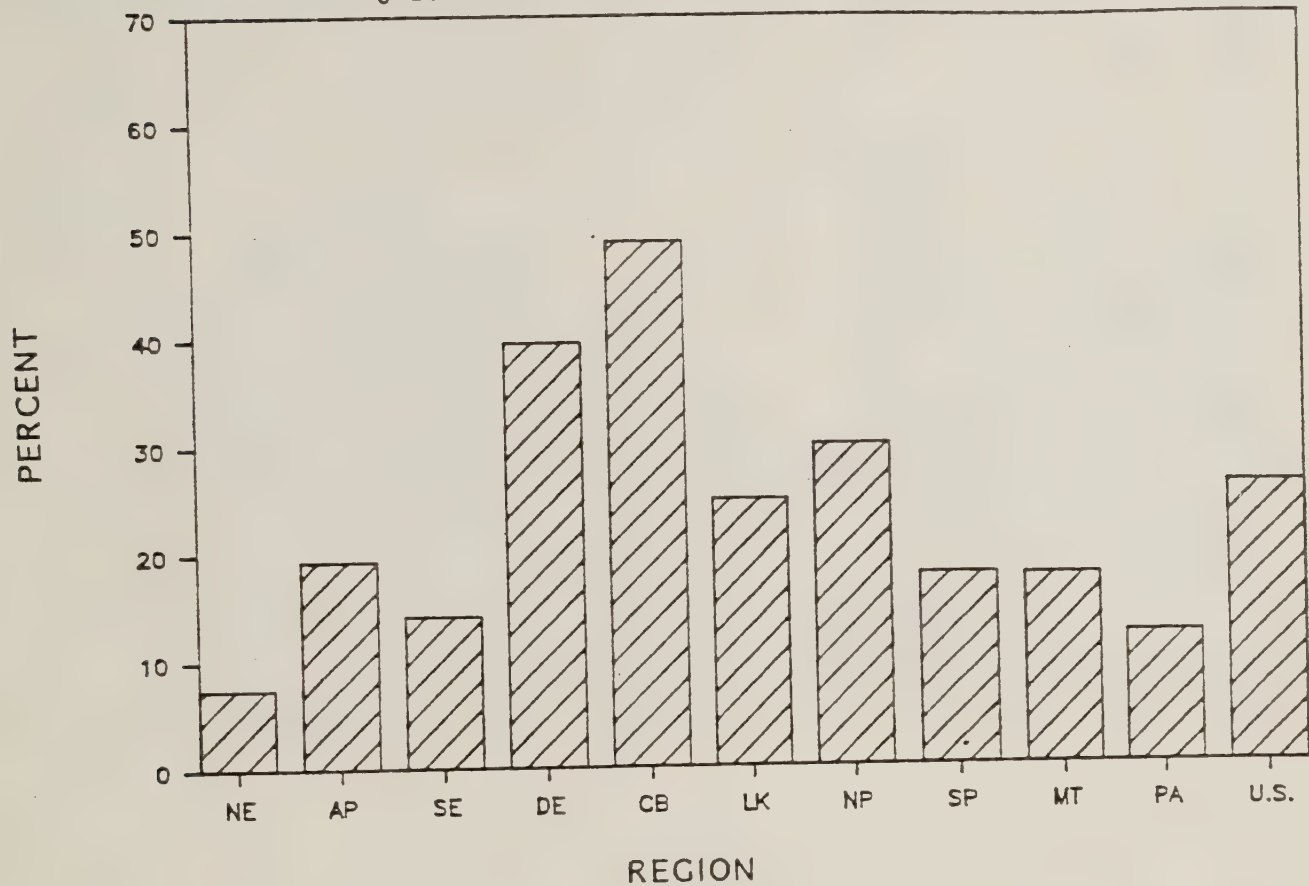


FIGURE 11



# Dependence on Off-Farm Employment

% operators working 199 + days off-farm

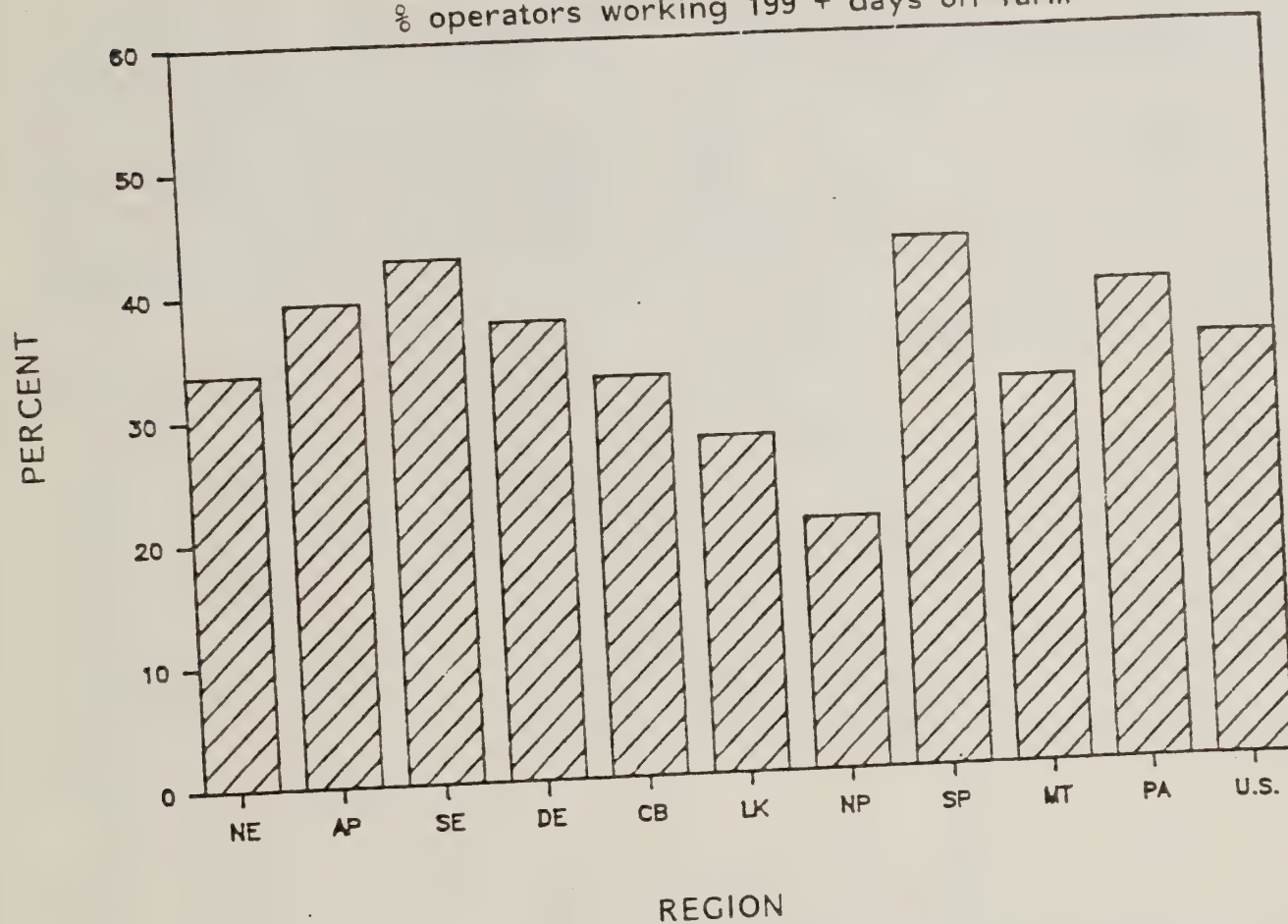


FIGURE 12



## PROSPECTS

Agriculture is still important to the nonmetro South but as an employer its importance has been dramatically reduced since World War II. Changes in agriculture no longer greatly alter the overall employment and population picture of the South. Agricultural employment accounted for only 3.2 percent of total southern employment in 1980. But, 235 southern counties still depended upon agriculture for their main economic activity. These farming-dependent counties are diverse with respect to farm products produced, farm size, and organization. In contrast to many other farm-dependent areas (particularly those of the Corn Belt, Lake States and Northern Plains), southern farm dependent areas, in general, have felt less stress from the current financial crisis largely because of much smaller declines in farmland values during the early 1980's. These smaller declines are due, at least in part, to less dependence on export-oriented commodities in most southern areas (some delta counties are an exception), the availability of nonfarm employment opportunities for farm household members, and probably more interest in using farmland resources for nonfarm purposes and/or for part-time farming.

At the household level, southern agriculture has benefitted from its close interface with nonfarm activities. The increased diversification of nonmetro areas in the South during the 1950's, 1960's and 1970's has dampened farm sector impacts in most of the South during the 1980's. Ironically, the viability of the manufacturing and mining sectors in the South is of utmost importance to the economic health of farm households and the farm sector in general. A large percentage of southern farm households rely on wages from other sectors to support farm operations in times of stress. But, many of the factors which lie at the roots of the farm crisis (the value of the dollar and international competition) are causing problems for southern manufacturing and mining. Many manufacturing jobs gained in the late 1970's by southern nonmetro areas were in the "import-sensitive industries" such as textiles and apparel. Some of these industries, given the changed economic environment of the 1980's, are currently stressed because of international competition.

The overall economic performance of the South has been strong during the first half of the 1980's (Table 7). But relative to the U.S. economy, the nonmetro south has slipped from its strong position in the 1970's. This slippage is due largely to problems in the basic industries such as manufacturing, mining, and farming which are playing a disproportionately large role in the nonmetro South. Some problems are clearly exacerbated by the strong value of the dollar; but, many are the result of the new global economy where the resources of land, labor, and capital compete in a truly international setting. That is, returns to U.S. farmland are in competition with returns to farmland investment in other countries. The same holds true for labor returns. For U.S. labor and farmland, current valuations are quite high relative to their valuation in other countries; for capital, higher expected returns from investments in the U.S., relative to those expected in other countries, have been at the root of the high values of the U.S. dollar during the 1980's.

The performance of the nonmetro South during the late 1980's will depend on its ability to compete in the international setting. It's success will depend in part on U.S. interest rates and how they affect the value of the dollar. But, southern economic success will also depend on changes in the overall efficiency of southern farms and nonfarm industries.



Table 7. Southern employment trends 1979-85

Region and State	Employment Change: Nov., 1971 - Sept., 1985		Employment Change: Oct., 1982 - Sept., 1985		Difference from U.S. unemployment rate	
	Total employment	Manufacturing employment	Total employment	Manufacturing employment	October 1982	September 1985
	-----Percent-----				-----Percentage Point-----	
Appalachian						
Kentucky	-3.5	-11.5	8.9	6.4	+0.3	+1.9
North Carolina	11.3	-0.1	12.5	5.9	-0.8	-2.8
Tennessee	8.8	-5.6	10.9	3.5	+0.7	+0.4
Virginia	14.8	0.6	12.7	5.7	-2.7	-1.7
West Virginia	-8.0	-29.2	-1.6	-9.0	+4.8	+5.6
Total	7.8	-4.5	10.6	4.7	-0.5	-0.5
Southeast						
Alabama	2.5	-3.0	6.3	6.8	+4.6	+1.1
Florida	31.5	11.4	17.5	14.8	-1.3	-0.5
Georgia	28.4	5.0	21.3	11.2	-2.7	-0.1
South Carolina	14.7	-5.6	14.3	4.1	+0.3	-0.4
Total	23.3	2.7	16.3	9.8	-0.5	-0.2
Delta						
Arkansas	7.8	-1.0	10.3	8.8	-0.8	+1.4
Louisiana	8.4	-18.9	-1.3	-11.1	+0.7	+3.7
Mississippi	1.8	-4.9	7.0	8.9	+1.8	+2.8
Total	6.5	-8.2	3.5	2.2	+0.6	+2.9
Southern Plains						
Oklahoma	8.0	-8.1	-0.8	-1.8	-4.0	-0.8
Texas	17.3	-1.4	6.3	-1.5	-2.9	+0.1
Total	15.9	-2.4	5.2	-1.5	-3.1	+0.1
South, total	14.5	-2.3	10.1	4.6	-1.0	+0.2
U. S.	8.9	-7.5	10.4	5.2	-	-

Source: U. S. Department of Labor, Bureau of Labor Statistics *Employment and Earnings*.



### Footnotes

<sup>1</sup>See e.g., Lloyd D. Bender, *et. al.* The Diverse Social and Economic Structure of Nonmetropolitan America. RDRR-49, U.S. Dept. of Agr., Econ. Res. Serv., Sept., 1985.

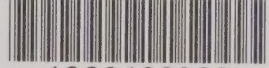
<sup>2</sup>The 1983 USDA's Payment-in-Kind program helped net farm income to more than double in 1984, but this was only an aberration to the 1980's trend of declining net farm income.

<sup>3</sup>By definition, farms are technically insolvent when their debt/asset ratios exceed 100 percent.

References

1. See e.g. David B. Clark, et al. The Diversion of U.S. Agricultural Exports to the Soviet Union, *Journal of International Economics*, 1984, Vol. 16, No. 1, pp. 1-15.
2. The 1983 USSR's Payment in Kind Program: Did not have income to more than double in 1984, but was only an exception to the USSR's trend of declining net farm income.
3. By definition, exports are technically received when their FOB value exceeds 100 percent.

NATIONAL AGRICULTURAL LIBRARY



1022466038

*an*

\* NATIONAL AGRICULTURAL LIBRARY



1022466038